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RUEHLP/AMEMBASSY LA PAZ AUG 9997
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TREASURY FOR SGOOCH
USTR FOR BENNETT HARMAN

E.O. 12958: DECL: 08/04/2016
TAGS: [ECON](#) [ETRD](#) [PGOV](#) [PREL](#)
SUBJECT: CHARGE MEETING WITH NEW ECONOMY MINISTER RODAS

Classified By: Charge d'Affaires Jefferson T. Brown, Reasons 1.4 (b) and (d).

¶1. (C) Summary: The Charge met with Ecuador's new Minister of Economy and Finance Armando Rodas August 3. The atmosphere was quite positive. Choosing to speak English and proud to note his Fulbright study in the U.S., Rodas seemed genuinely committed to improving the bilateral economic relationship, and sought to distance himself from what he described as his predecessor's more "left" posture. He defended the GOE's hydrocarbon law and Oxy decision as legally valid, but sought to put them behind us. He pledged to resolve outstanding commercial disputes with two U.S. energy companies, and pushed for the renewal of ATPDEA benefits. He said he would accompany President Palacio to President Uribe's inauguration Monday, August 7, in Bogota and participate in the USG bilat (requested with Secretary Gutierrez). End Summary.

¶2. (C) In addressing the hydrocarbon law, Rodas said the government had developed several approaches and that the one eventually put forward, while not what he had favored, was essentially the same as the U.S. "windfall profits tax" enacted under President Carter or being considered currently in the U.S. House. The Charge pushed back, noting that Ecuador's law applied to gross revenues rather than profits, and therefore was quite different. Rodas said five or six companies had already renegotiated their contracts to comply with the law, so that it clearly was not that excessive. Asked about the pending constitutional challenges to the law, Rodas thought it would be "politically impossible" for the court to declare the law unconstitutional, particularly with elections approaching. The Charge noted that ultimately it will be the affected U.S. companies, particularly City Oriente, that will decide whether or not to seek redress under the U.S.-Ecuador bilateral investment treaty (BIT). He said that if the GOE could reach a mutually satisfactory accommodation with City Oriente, it could potentially help mitigate the issue as a thorn in bilateral relations. With respect to the Oxy case, the Charge said that the GOE could send a positive signal by naming an arbiter in the recently registered international arbitration process, and committing themselves to respect the outcome. Rodas replied that the GOE would name an arbitrator in the case shortly.

¶3. (C) Rodas also expressed his personal commitment to resolving the Machala Power and Duke Energy issues regardless of what occurs with the electricity law currently under debate in the congress (septel). If the law passes, as he

hoped, it will provide the means for liquidating the companies' outstanding debts. If it fails, he pledges to make an initial payment to each company and sign an agreement for a schedule of future payments.

14. (C) Pushing hard for ATPDEA renewal, Rodas underscored the potential loss of jobs and increase in poverty if the program is not renewed, and emphasized Ecuador's cooperation on counter-narcotics issues. The GOE plans to show facts and figures to bolster their case in Monday's requested meeting with the USG on the margins of Uribe's inauguration. The Charge explained that ATPDEA extension will be determined by Congress, not the executive branch, and our current sense is that key Congressional players are viewing the decision more within the context of trade rather than counter-narcotics (CN) policy. In that regard, Ecuador damaged its image in Washington as a good faith partner in the trade arena with its actions in recent months. ATPDEA was conceived as a temporary program to be replaced by an FTA. The Charge suggested that Ecuador would be best served by maintaining focus on the FTA agenda; resolving outstanding commercial disputes and clearing away as many of the other issues that were pending in the context of that process. In an ideal scenario, GOE progress could restore a positive environment for the potential resumption of FTA talks during the very narrow window of time that will exist between Ecuador's October elections and the expiration of Fast Track Authority in the U.S. Congress.

BROWN